REMARKS OF SENATOR DOLE

CREVE COEUR CLUB WASHINGTON DAY BANQUET

Tuesday, February 26, 1985 -- 8:00 p.m.

Peoria, Illinois

1. The 99th Congress

   - We face major challenges on the deficit, the MX missile, tax reform, Central America. We can meet these challenges by working with President Reagan on the basis of mutual respect.

   - Congress knows that President Reagan's overwhelming election victory sent a strong message about what the people expect us to do. We already are at work on his agenda, but success will depend alot on mutual recognition that Pennsylvania Avenue is a two-way street.

   - Our top priority is to cut spending to reduce the budget deficit. That is why Senator Domenici and I introduced S. 1, which commits us to getting the deficit down to $100 billion or less by 1988. The vital issue of tax reform should proceed on a separate track to allow us to sort out the options and see if we can build a consensus without losing momentum on the urgent problem of the deficit. Other issues that require attention in 1985--a new farm bill, Superfund, national defense, and arms control--will not be neglected.

2. Our Economic Progress

   - Economic recovery remains on track and is moderating to a pace that can be sustained in the years ahead. Real GNP grew 6.1% in 1983, and continued at 6.8% in 1984, peaking at a 10.1% rate in the first quarter last year. That is the highest real growth rate since 1951. This remains one of our strongest recoveries.

   - With national unemployment down to 7.4%, this recovery has created over 7 million jobs. More people are working than ever before. Factories are operating at the highest capacity levels in 4 years, close to 82%. Housing starts in January rose 15% to an annual rate of 1.83 million.

   - The best news about this recovery is that inflation is staying low. Producer prices in 1983 showed the smallest increase since 1964. The CPI rose just 3.8% in 1983 and 4% in 1984. We <u>can</u> sustain strong growth with low inflation: especially if productivity keeps rising, as it did in 1984--by 3.6%.

- o Growth, lower inflation, and major tax relief have increased real personal income by over $116 billion since 1982. Real after-tax incomes grew 6.8% in 1984--the biggest increase in over a decade.

- o Trends in the economy still look good. The prime rate--which rose from 6.5% to 21.5% under Carter-Mondale--stands at 10-1/2%. The misery index, which peaked at 24.5% in March of 1980 is around 11%.

3. The Budget And the Deficit

Nature of the Deficit Problem

- o After several years of budget deficits that approached the $200 billion mark, some people seem to be getting complacent about the problem. Since the economy has continued to do well, with low inflation and strong growth, why worry about the deficit?

- o The answer is that everything we have achieved for the economy in the last several years is put at risk unless we deal with the deficit. And part of the problem is that the public can't get very excited about the deficit dilemma. It seems we need to have a crisis on our hands, or some kind of visible faltering in the economy, to convince people of the urgency of reducing the budget deficit.

The Real Point

- o Sustained deficits in the $200 billion range pose an imminent threat to the recovery, because they will lead to either higher inflation or slow growth and rising unemployment. Without assurance that inflation will remain under control, and credit available at acceptable rates of interest, business will not expand through new investment, and jobs will not be available for our sons and daughters when they are ready to enter the workforce.

What Needs to be Done

- o The sacred cow is a thing of the past: everything in the budget must be scrutinized for possible savings. We have not done all we can to reduce Federal spending when the budget still represents nearly 25% of the gross national product.

Spending "Freeze Plus"

- The President's FY 1986 budget proposes to freeze total spending plus reform some programs and terminate others that have outlived their usefulness. That would cut $50 billion from the deficit next year: the minimum we need to sustain a healthy recovery, according to Paul Volcker and other experts.

- Congress will change some of the President's budget priorities, for example, by cutting a bit more from defense. And Senate Republicans want to go a little further in the outyears to get the deficit down to 2% of gross national product by 1988.

- In the Senate, we are moving toward a major spending cut package. The Budget Committee has begun work on the President's plan, and our committee chairmen have already pledged about 60% of the needed domestic cuts--contingent on getting a balanced package that includes defense. We are working on an expedited scheduling and hope to have a budget approved by March.

Popular Support

- The people want spending cut. The Los Angeles Times poll shows that by a 5 to 1 margin, Americans prefer cutting government spending over tax increases to deal with the deficit.

- The Gallup poll shows that 54% of Americans believe the deficit is a very serious problem: but it's tough to translate that into action because the public has varying views on which spending should be cut.

- Experts also agree that spending reduction is the way to go. In January, distinguished experts such as Alan Greenspan, Charles Schultze, and Martin Feldstein told the Finance Committee that cutting spending by $50 billion or more in 1986 will reduce interest rates, keep inflation down, and ensure continued recovery.

Risks Ahead

- Time is of the essence, because we are at the point where economic expansion will either continue, competing against heavy Treasury borrowing, or the recovery will slow and possibly slip into recession. That is why Senate Republicans moved ahead of schedule to work out a budget plan. The risk is that the deficit problem will compound itself: each year that we add $200 billion in new Federal debt adds about $15 billion to the next year's interest costs. The exploding cost of servicing the Federal debt will make controlling spending that much more difficult each year.

All Aboard

- Everyone must share in the effort to close the deficit gap. People will accept a limited, short-term sacrifice for fiscal restraint if they understand that it is the best investment they can possibly make for their own, and their families', economic future.

4. Major Tax Reform

- The Treasury Department has proposed an innovative, constructive new plan for reforming our tax system, and the President made tax reform a high point of the State of the Union address. Some of the proposal is highly controversial, and the President no doubt will modify some things. The Treasury initiative provides an excellent starting point for the 1985 tax reform debate.

- Under the Treasury plan, there would be just three tax rates: 15, 25 and 35 percent. The personal exemption would double, to $2,000. Rate brackets, the zero bracket, and the personal exemption would continue to be indexed. For corporations, there would be a single rate of 33 percent.

- Major tax breaks that would be dropped include the deduction for State and local taxes, the marriage penalty offset, the investment tax credit, the capital gains exclusion, the tax exemption for private purpose bonds, and the exemptions for employer-provided fringe benefits.

- Tax provisions that would be modified include mortgage interest deductions for second homes (disallowed); the charitable deduction (limited to amounts in excess of 2 percent of adjusted gross income); business expense deductions (limited); and taxation of dividends (a partial dividends-paid deduction).

- Indexing would be extended to capital gains; interest income and expense; depreciation deductions; and the earned income tax credit.

- It is important to build a consensus for any far-reaching changes, drawing on the Treasury plan, Bradley-Gephardt, Kemp-Kasten, and other plans. It may be necessary to move gradually, and reform will not be possible without strong Presidential leadership. And the people will have to let us know if they think the kinds of trade-offs being proposed are worthwhile.

5. International Trade

- Another major challenge is to keep international markets as free and open as possible in an era of record U.S. trade deficits. Reducing the budget deficit will be a tremendous help, because it will help moderate interest rates and the value of the dollar.

- So far we have done well in keeping avenues of trade open. It is especially significant that last year's trade bill extended for 8 1/2 years, the Generalized System of Preferences, which provides duty-free treatment for certain imports from the underdeveloped world.

- In a similar trade liberalizing vein, the bill authorized the negotiation of free-trade zones, specifically with Israel, and the reciprocal reduction of tariffs on semiconductors.

- It is hoped that the authority to negotiate bilateral free trade arrangements may induce other countries to join in trade liberalization.

- The trade bill recognized, for the first time, the importance of trade in services (including banking); The President is directed to negotiate reduction in barriers to trade in services (a sector in which the U.S. has the competitive advantage and which represents a major portion of our GNP.)

- At the same time, the U.S. must be prepared to use what leverage it can when markets are unfairly closed to American producers. That is why we are reviewing overall trade relations with Japan to help remove artificial barriers to American entry to the Japanese market.

G. Washington quote (if needed or desired) for address to Creve Coeur Club Washington Day Banquet

George Washington....from his Farewell Address

"As a very important source of strength and security, cherish public credit. One method of preserving it is to use it as sparingly as possible, avoiding occasions of expense by cultivating peace, but remembering also, that timely disbursements, to prepare for danger, frequently prevent much greater disbursements to repel it; avoiding likewise the accumulation of debt, not only by shunning occasions of expense, but by vigorous exertions, in time of peace, to discharge the debts which unavoidable wars may have occasioned, but ungenerously throwing upon posterity the burdens which we ourselves ought to bear. The execution of these maxims belongs to your representatives, but it is necessary that public opinion should co-operate."

PROVISIONS OF SENSE OF SENATE RESOLUTION ON FARM CREDIT

1. ADEQUATE LOAN GUARANTEES WILL BE MADE AVAILABLE UNDER THE SEPTEMBER DEBT ADJUSTMENT PROGRAM TO MEET DEMAND BY LENDING INSTITUTIONS TO REFINANCE FARMERS THIS SPRING.

2. THE CASH-FLOW REQUIREMENT FOR FARMERS TO BE ELIGIBLE FOR COMMERCIAL LOAN RESTRUCTURING UNDER THE DEBT ADJUSTMENT PROGRAM IS REDUCED FROM 110% TO 100%.

3. ADEQUATE CREDIT WILL BE MADE AVAILABLE UNDER THE FARMERS HOME ADMINISTRATION INSURED (DIRECT) OPERATING LOAN PROGRAM TO MEET DEMAND IN 1985.

4. THE PERCENTAGE OF LOAN GUARANTEED UNDER THE INTEREST CONCESSION OPTION WILL BE INCREASED YEARLY TO A MAXIMUM OF 90% OF PRINCIPAL.

5. APPLICATIONS FOR FmHA LOANS AND LOAN GUARANTEES WILL BE EXPEDITED (FmHA HAS ANNOUNCED THAT 1,000 ADDITIONAL LOAN OFFICERS ARE BEING REASSIGNED TO WORK ON THE CURRENT CASE BACKLOG.)

6. ACTION ON LOAN APPLICATION DECISIONS BY APPROVED LENDERS WILL BE REQUIRED WITHIN 15 DAYS; ACTION ON FmHA LOAN AND LOAN GUARANTEE REQUESTS WILL BE PROCESSED WITHIN 60 DAYS, TO THE FULLEST EXTENT POSSIBLE.

7. FEDERAL AND STATE REGULATORY AGENCIES ARE ENCOURAGED TO EXERCISE RESTRAINT AND FOREBEARANCE IN MAKING ADVERSE CLASSIFICATIONS WITH RESPECT TO AGRICULTURAL LOANS.

BOB DOLE
KANSAS

United States Senate
OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

February 26, 1985

TO: Senator Dole

FROM: George Pieler

SUBJECT: Material for Creve Coeur Club talk

Attached is an outline of remarks for your talk to the Creve Coeur Club in Peoria, along with a quote Dale found that might be appropriate for the occasion (Washington on the perils of accumulating debt) and the material John prepared for you on the issues of farm credit and the farm bill.

Attachments

United States Senate

COMMITTEE ON ARMED SERVICES
WASHINGTON, D.C. 20510

February 25, 1985

The Honorable Robert Dole
United States Senate
Washington, D.C. 20510

Dear Bob:

We are aware that you are diligently attempting to reconcile varying points of view in order to construct a deficit reduction proposal for Senate consideration. As the Republican members of the Senate Committee on Armed Services, we feel that you should have the benefit of our views on such proposal, particularly as it relates to the defense budget.

As you know, defense spending is unique in that it is the only part of the U.S. budget determined solely by factors external to our nation. With the bipartisan support of Congress and the American people, we have begun redressing the neglect of the 1970's and restoring our nation's strength, confidence and position of leadership in the world. The continuing Soviet military buildup as well as the growing menace of international terrorism, regional instabilities, and geopolitical uncertainties dictate that the United States sustain the efforts made over the past four years to rebuild our military posture.

In the absence of any clear evidence that threats to our national interests have diminished, we are very much disturbed by budget proposals which, if followed, would result in substantial reductions from the defense budget proposed by President Reagan for Fiscal Year 1986.

We are all well aware that the budget deficit is an extremely important issue which must be addressed responsibly and with dispatch. If, however, in the face of budgetary pressures we make substantial defense spending reductions, not only will our allies lose confidence in our leadership, but our adversaries will lose their incentive to negotiate arms reductions. We, therefore, cannot endorse any budget proposal which would adversely affect the accomplishments made over the past four years or which would compromise our future ability to deal with potential adversaries from a position of strength.

For these reasons, virtually all of us at the present time have agreed to support President Reagan's Fiscal Year 1986 defense budget request. Though our clear preference is to support the President's defense budget request, we realize that certain accommodations may have to be made in order to achieve passage of a deficit reduction package. However, it is our firm view that in no case can the defense budget be reduced below the level required to provide 4% real growth in budget authority over that approved by Congress for Fiscal Year 1985. We offer this recommendation to you with the hope that it will assist you in preparing a responsible deficit reduction package.

Sincerely,

Barry Goldwater

Strom Thurmond

Barry Goldwater

Strom Thurmond

John Warner

Gordon Humphrey

William Cohen

Dan Quayle

John P. East

Pete Wilson

John East

Pete Wilson

Jeremiah Denton

Phil Gramm

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

February 26, 1985

Honorable Robert J. Dole
Majority Leader
United States Senate
Washington, D.C. 20510

Dear Mr. Majority Leader: Bob

Currently pending before the Congress are bills which purport to deal with the short term farm credit problem. It is my firm belief that the responsible use of existing authorities and the commitment of adequate resources is the soundest and surest means of insuring that the nation's farmers receive timely operating credit for the coming crop year. Further, under the provisions of the Administration's debt adjustment program, substantial care is taken to insure that individual farmers restructured debt provides them with adequate income to cover reasonable operating expenses and a margin for unexpected costs. We believe that these provisions are vital to protect the future of individual producers facing financial stress.

In reviewing the various legislative proposals before the Congress, it is clear that these important safeguards for farmers have largely been eliminated. Clearly, I believe that we need to determine whether our primary goal is to provide sound assistance to farmers who are good managers and with proper assistance can be helped or if the goal is to insulate lending institutions from risk or incentive to continue to serve the agricultural community in their area.

Further, the proposed legislation turns an important tool for orderly marketing for farmers (CCC loans) which has been in effect for 52 years, into a multi-billion dollar production finance bank. Such action is not in the best interests of farmers and will create new problems for producers at harvest.

In my agreement with the Senate on behalf of the President, the Administration has already taken major, immediate, and productive steps to insure that farmers are able to obtain timely operating credit from private and government lenders. It is my belief that it is time to set aside partisan political posturing and work together to support the effective use of the credit programs which are in place and working. It is by this action that we can best serve the short term needs and interests of the American farmers.

It is because of my concern that the proposed legislation is not timely nor in the best interests of farmers that I want to advise you that should these measures pass the Congress that I will strongly recommend that the President not sign them.

Sincerely,

Jack

JOHN R. BLOCK
Secretary

SENATOR DOLE'S SCHEDULE - PEORIA, ILL. - February 26, 1985

TUESDAY, FEBRUARY 26

5:00 EST Depart Butler Aviation - National Airport

Lear 25}
Tail # 28MJ
Pilot: Chris Bromfield
Copilot: Not yet known

Manifest: Senator Dole
Congressman Bob Michel
Mike Delaporta, ;of Bevell, Bressler & Schulman, owners of aircraft

6:30 CST Arrive Byerly Aviation - Peoria Airport

PHONE: 309/697-6300

6:50 Arrive Peoria Civic Center

PHONE: 309/673-8900

7:00 CST Press Conference - Peoria Civic Center

7:15 Arrive Reception - Civic Center in progress

7:30 Creve Cour Club Dinner - Civic Center

8:15 SPEAK following dinner

8:45 Depart Civic Center enroute airport

9:00 CST Depart Peoria enroute Washington

Air Force C-140

Manifest: Senator Dole
Congressman Bob Michel
Richard Carver, Ass't Sec'y for Financial Management, A.F. (former Mayor of Peoria, who is returning to Washington from Denver via Peoria)

11:35 EST Arrive Andrews AFB

Will be met by Bob Michel's car and driven directly to Watergate South

STATE OF THE AMERICAN FARM CONFERENCE

AGRICULTURE TALKING POINTS

Farm Credit Resolution

Compromise package worked out with bipartisan support essentially clarifies intentions of Administration plan, revised three weeks ago:

- Sufficient loan guarantees under September debt adjustment plan to refinance farmers;
- Sufficient direct operating loans from FmHA to meet demand;
- Reduces 110% cash flow requirement to 100% under commercial lender part of debt plan to encourage banks to participate;
- Expedites processing of applications for FmHA loans and loan guarantees, and requires 15-day turnaround on approved lender decisions by FmHA;
- Encourages federal and state regulatory agencies to show restraint and forebearance in overseeing bank classification of agricultural loans.

Plan will work if banks participate and if FmHA makes enough personnel available. Strong Administration push is needed to "sell" the program in the next two weeks. KBA Executive Vice President Harold Stones letter (attached) indicates program will be successful if "steps are taken quickly to insure the plan's workability, and all approvals needed will be expedited."

Outlook for Other Credit Action

Amendments to Africa relief authorization bill may include:

- Advance one-half or one-third CCC loan: Opposed by Farmers Union, National Farmers Organization (letters attached), the Grange, and AAM as dangerous change in traditional roles of loan to provide operating capital or support farm prices.

  USDA estimates FY-85 outlays could increase by $9 billion.

- Reduce 110% cash flow requirement on FmHA debt set-aside: Would reduce initial eligibility threshold for farmers, but would increase annual loan payments (example attached).

Any effort to provide additional financing for Spring planting is not needed if the Administration's plan, as revised, is fully and quickly implemented. It will also be too late, and could confuse progress on "selling" the existing program.

Farm Asset Devaluation and the Farm Credit System

Farmland values increased by $465 billion in 1970's. They have fallen by $149 billion -- nearly one-third -- since 1979. The rate and extent of further decline is unpredictable, but market overreaction is possible if the drop is too precipitous. Some action to restore confidence in farm asset value may be needed.

Two district banks (Spokane and Omaha) in the Farm Credit System are in serious trouble. Some restructuring or reorganization of the Farm Credit Administration may be required. FCA has requested legislation to increase its regulatory authorities.

Federal Reserve System is considering options, including making discount window available to cooperative members of FCS.

Farm Bill Outlook

Administration Farm Bill: Would reduce wheat target price from $4.38/bu. (1985 crop) to $3.41 (1986), $2.96 (1987), and $2.55 (1988), according to USDA projections. Loan would decline from $3.30/bu. (1985) to $2.56 (1986), $2.33 (1987), and $2.12 (1988).

Supports for feed grains would fall less sharply but still by 25% over three years. Supports for cotton and rice would fall more quickly than wheat (table attached).

Other Bills: Helms bill expected to be introduced during week of March 4-- less draconian reductions in supports. Boschwitz has legislation, probably Zorinsky. House attitude seems to be to wait until June and then join Wheat Growers in pushing for a one or two-year extension at present support levels.

Objectives: No one wants to repeat 1981 farm bill experience, including an impossible budget target, an improbable Administration position, and unrealistic demands by commodity groups.

- Baseline outlays are much higher in FY-86/88 ($12-$14 billion) than in FY-82/84 ($3-$4 billion). Congress should be able to show savings while still having enough baseline to work with.

- State of farm economy makes radical changes difficult. We must do better than a simple extension of current law, which would only extend its contradistory policies and high costs.

Farm Economy Outlook

Current farm prices remain close to loan levels -- $3.30/bu. for wheat; $2.55/bu. for corn. With good crops in prospect, improvement is doubtful unless demand improves. Significant forfeiture of wheat and corn under loan and in Farmer Owned Reserve is expected as loans mature this year.

Export picture is poor due to the high Dollar, other anti-competitive factors (increased world production, continued subsidies, stagnant imports by developing countries, U.S. loan rates).

Examples of recent trade reversals:

- Cargill purchase (subsequently diverted elsewhere) of 25,000 tons of Argentine wheat, landed at the U.S. Gulf for $8/ton less than U.S. wheat, freight and import tariff of 22¢/bu. included.

- Argentine wheat currently is available at $37-$38/ton under U.S. wheat (FOB basis).

- PRC corn recently sold to Korea at $108-$110/ton (FOB basis), compared to comparable U.S. corn at $122-$125.

Administration farm bill puts trade title first, but has no firm commitment or timetable for trade policy. Export PIK used in Egyptian wheat flour sale may need to be resumed if large quantities of grain are forfeited to CCC.

New GATT round efforts are focussed on gaining concession in "new" trade areas: services, financial, high-tech, intellectual property. No progress is evedient in GATT Committee on Trade in Agriculture (CTA) discussions, due for completion in November, 1985.

110% vs. 100% Cash Flow

The 110% cash flow requirement for Farmers Home borrowers who participate in the Debt Adjustment Program is more advantageous to the borrower because it forces FmHA to set more of the principal and accrued interest on the shelf and makes the farmer's subsequent loan payments lower than they would be at 100% cash flow. Under this program FmHA sets aside only enough accumulated debt to allow the farmer to cash flow -- in no event more than 25% of his total FmHA debt or $200,000, whichever is less. Therefore, the higher the cash flow requirement, the higher the amount of debt set aside must be and, subsequently, the lower the loan payments will be.

For Example:

A farmer owes FmHA $100,000 at 10.25% interest for 5 years. Before the adjustment, his loan payments are $26,549 per year.

Cash Flow Requirement	Amount of Debt Set Aside	Annual Loan Payment
	-0-	$26,549
100%	$10,000	$23,894
110%	$25,000	$19,911

100% cash flow will cost the farmer $3,983 more per year because of the smaller amount of debt that FmHA must set aside. Over the 5 year period of the loan, this will cost the farmer $19,915 more than 110% cash flow.

Dixon Amendment for
Advanced Government Price Support Loans

- The Administration opposes enactment of Commodity Credit Corporation advance loan legislation for the following reasons:

  -- While it is estimated that about 15 percent of farmers are having difficulty in obtaining credit for spring planting, this legislation would entitle virtually all farmers to receive loans at substantially below market rates of interest regardless of financial need.

  -- It is also a bank bailout amendment in the sense that it relieves banks of a large part of the responsibility in helping farmers with their credit needs.

  -- The bill could add over $9 billion to FY 1985 outlays for advanced CCC loans this spring. The Federal deficit would be directly impacted by this proposal.

  -- The proposed limit of $50,000 per farmer would not be very effective in limiting outlay exposure under the legislation. Therefore, outlay exposure could be expected to be reduced only marginally perhaps by only $1.0 billion, still leaving outlays some $8 billion higher than those in the President's Budget for FY 1985.

  -- Even considering potential loan repayments in FY 1986, the proposal could raise CCC net outlays by $1 to $5 billion over the FY 1985-86 period, depending on supply-use developments that could affect forfeitures of the commodities to the CCC.

  -- Under the programs already announced for the 1984 and 1985 crops, CCC will have provided over $12 billion between December 1984 and April 1985. To place CCC into the position of making production loans, never before a function of the Corporation, would further strain the Federal budget and would use up all available CCC funds upon enactment of the legislation.

  -- The Government is already providing substantial assistance to farmers during FY 1985 -- nearly $20 billion will be made available through regular USDA programs. It is also implementing a new farm debt restructuring program.

- CCC does not have sufficient Treasury borrowing authority to finance this legislation. Currently, CCC has about $5.5 billion in borrowing authority, and under normal program activity it is expected that this amount will soon be depleted. Therefore, the proposed legislation cannot be implemented without Congress taking additional appropriations action to provide CCC the necessary funding to carryout this legislation. As indicated above, some $9 billion would need to be provided by Congress to meet the financial requirements of this legislation.

PROVISIONS OF ZORINSKY AMENDMENT TO S. 457

Sec. 203: Improvement in Processing of Applications for FmHA Loans -- Requires the Secretary to take steps to process 1985 FmHA operating loan applications, including the assignment of personnel to work overtime and the hiring of temporary employees beyond those retained under USDA's February 19 directive.

Sec. 204: Cooperative Interest Buy-Down -- Requires the Secretary to use up to $100 million in FY85 to offset one-half of any reduction in interest rates by commercial lenders to farm borrowers.

Sec. 205: Additional Loan Guarantees -- Requires an additional $1.85 billion in loan guarantee authority (total of $2.5 billion).

Sec. 206: Special Set Asides of FmHA Indebtedness -- Allows lenders to qualify for a 90% guarantee on loan principal and interest under the debt adjustment program without requiring a writedown of either principal or interest.

Combined with Sec. 205, this provision would likely result in FmHA takeover of $2.5 billion in non-performing or classified loans.

Sec. 207: Bank Regulatory Agency Policies -- Requires financial regulatory agencies to exercise caution and restraint in classifying agricultural loans. Requires report on actions by FDIC, OCC and Federal Reserve within 90 days. Requires regulatory agencies to prohibit examiners from making adverse classifications on farm loans restructured under the debt adjustment program.

Sec. 208: Protection of Farm Credit Systems Borrower Capital -- Requires the Farm Credit Administration to study the need to establish a revolving fund to insure against Farm Credit System loan losses and to protect borrower capital. Requires completion of the report within 180 days.

Sec. 209: SBA Debt Adjustment Program -- Sense of Congress that SBA should establish a debt adjustment prrgram for farm borrowers similar to FmHA.

Sec. 210: Regulations -- Requires Secretary to issue regulations to implement changes in debt adjustment program within 15 days of enactment.

Zorinsky Amendment for
Emergency Farm Credit Assistance Act

- The Administration opposes the Emergency Farm Credit Assistance Act for the following reasons:

-- The legislation is unnecessary. The Administration has already implemented a program sufficient to meet the needs of farmers experiencing cash flow problems.

-- This legislation would create weeks of delay. Regulations and instructions to the local offices would have to be issued to implement the new program. Therefore, it would not realistically be operational until April--too late for many farmers.

-- Lending institutions, not the farmers, will be the major beneficiaries. The $100 million of new Federal Spending for interest buydown is unwarranted given the recently announced changes for special credit relief for financially pressed farmers.

-- The provision of not requiring a lender to write off principal or write down interest is to the lenders' advantage. The government would be forced to underwrite loans with little or no chance of repayment.

-- The 110% cash flow requirement on existing FmHA loans is sound policy and should be continued. This existing provision protects the FmHA borrower against unforseen circumstances such as a poor crop.

2-26-85

KBA The KANSAS BANKERS ASSOCIATION
A Full Service Banking Association

February 25, 1985

The Honorable Bob Dole
United States Senator
141 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Dole:

It is our understanding that the Credit Restructuring Plan being supported by you and agreed to by the Reagan Administration will include the following:

1. Cash flow requirements for qualified farm borrowers will be reduced to 100% rather than 110%.

2. A pool of funds will be made available for loan guarantees sufficient to satisfy agricultural demand.

3. Steps will be taken quickly to insure the plan's workability, and all approvals needed will be expedited.

We support the Kansas Bankers Association's steps to assist in the education and implementation of this loan guarantee program. It is essential that our agricultural borrowers receive some lending assurance as soon as possible, so adequate planning can occur on the part of both lender and borrower. The Kansas Bankers Association and Farmers Home Administration will jointly conduct six seminars to be held on March 5, 6, and 7 to assist Kansas bankers in implementing the program.

Let us get on with it.

Sincerely,

Dru Richard, First Bank & Trust, Concordia
Earl McVicker, Central State, Hutchinson
Ray Purdy, Garden National, Garden City
Barney Horton, Farmers Bank & Trust, Atwood
Clyde Burnside, American State Bank, Great Bend
Bob Kustersteffen, State Exchange, Yates Center
Victor Olson, First State Bank, Burlingame
John Harding, First National, Dodge City
Larry Heyka, First National, Dodge City
Deryl Schuster, First National, Liberal
Don Steffes, McPherson Bank & Trust
John Price, Merchants National, Topeka
Paul Richmond, Commercial National, Kansas City
Fred Dunmire, Commercial National, Kansas City
Kenneth Stout, Citizens State Bank, Woodbine
Ralph Jenson, Peoples State Bank, Sharon Springs
R. D. Rucker, Home Bank & Trust, Eureka

PROVISIONS OF REVISED DIXON AMENDMENT TO S. 457

1. Requires Secretary to extend advance loans equal to 50% of historical harvest base to producers of all CCC supported crops.

2. Limits loan advance to $50,000 per producer.

3. Requires Secretary to issue regulations within 15 days and extend producer program sign-up for additional 15 days.

TALKING POINTS ON DIXON AMENDMENT TO S. 457

- The advance loan concept would destroy the traditional roles of the non-recourse loan program as a source of operating credit and as a support for post-harvest farm prices.

- The amendment places no restriction on producer eligibility, such as a credit elsewhere test. Unrestricted eligibility will increase loan outlays in FY-85, and reduce farm borrower dependence on traditional commercial and cooperative lenders for operating credit.

- The amendment provides no protection to the Government for the loan advance prior to harvest, such as mandatory Federal crop insurance.

- The advance loan could be subject to attachment by other creditors of the producer.

- USDA will be making $2 billion in advance deficiency payments at sign-up: $880 million for feedgrains, $725 for wheat, $300 for cotton, and $140 million for rice. In addition, deficiency payments on 1984 crops will total $5.7 billion, including $1.7 billion for feedgrains (payment in April 1985), $700 million for cotton and $300 million for rice (payment made in February 1985). Wheat producers received $1 billion in 1984 deficiency payments in December 1984.

- The amendment would provide a windfall to producers who are able to obtain credit at commercial interest rates -- some 4-5% over the current CCC lending rate of 9 1/8%.

- It will be difficult to establish a farm yield for soybean producers, who do not participate in production adjustment programs.

- It will be difficult if not impossible to issue regulations for the advance loan program in the required 15 days. The confusion over another program change would further complicate administration.

- Winter wheat farmers, who planted last Fall, have no need for the program. They will either receive unneeded loan advances 3 months before harvest or will be competively disadvantaged compared to Spring wheat producers.